5 Large Caps Benefitting from Buybacks

## Description

Earnings per share (EPS) is one of the key metrics that investors key on when evaluating a company. Typically, those companies that are able to demonstrate an ability to consistently grow EPS are the ones that you want to own.

default watermark

Companies have a lot of levers at their disposal to help them achieve this coveted growth. For the most part, these levers pertain to increasing revenues and decreasing costs.

There is however another way they can achieve EPS growth that is not directly related to the company's revenues or expenses.

Share buybacks decrease the denominator in the earnings/share calculation. If the denominator (shares outstanding) declines at a faster rate than the numerator (earnings), EPS goes up.

Over the past five years, the company's below have used this "tool" to bolster their respective growth. The table provides a look at the growth in bottom line net income relative to earnings per share over this period, as well as the percentage decline in shares outstanding for each.

| Company Name | Earnings Growth | EPS Growth | Shares Outstanding |
|---|---|---|---|
| **Rogers** (TSX:RCI.B) | 16.6% | 21.8% | -18.7% |
| **Tim Horton's** (TSX:THI) | 8.0% | 12.3% | -17.5% |
| **Metro Inc.** (TSX:MRU) | 22.9% | 26.9% | -14.5% |
| **CN Rail** (TSX:CNR) | 2.8% | 5.8% | -13.8% |

| | | | |
|---|---|---|---|
| **Shoppers Drug Mart** (TSX:SC) | 3.8% | 4.8% | -4.1% |

*Source: Capital IQ*

What has this meant for shareholders in each of these entities?

We can get a rough idea of the impact that the buybacks have had by taking each company's current net income and dividing by the shares outstanding from 5 years ago. We arrive at the Estimated Current EPS in the table below. This figure can then be multiplied by the current earnings multiple to get a hypothetical value for the shares that can be compared to the current price. The Difference allows us to get a handle on the "value" management created over the past 5 years through buying back stock.

| Company Name | Est. Curr. EPS | Multiple | Hyp. Price | Curr. Price | Difference |
|---|---|---|---|---|---|
| Metro | $4.82 | 9.1 | $43.86 | $70.92 | +61.7% |
| Rogers | $2.65 | 14.8 | $39.22 | $49.88 | +27.2% |
| Tim Horton's | $2.13 | 21.7 | $46.22 | $56.03 | +21.2% |
| CN Rail | $5.28 | 18.2 | $96.10 | $103.13 | +7.3% |
| Shoppers | $2.92 | 15.8 | $46.14 | $46.61 | +1.0% |

default watermark

*Source: Capital IQ*

It's important to emphasize these are just estimates as each company's current earnings multiple is partially a result of the share buyback activity that has taken place in the past.

**Foolish Takeaway**

Buying back stock is just one of the shareholder friendly moves a management team can make to help juice shareholder returns. The other biggie is when management pays out excess capital in cold hard cash through a regular dividend.

If you're partial to dividends, we've created a special **FREE** report that highlights 13 companies that you need to click here to find out about. "**13 High Yielding Stocks to Buy Today**" will have you rolling in dividend cheques before you know it. You're one click away from dividend nirvana!

*Follow us on Twitter and Facebook for the latest in Foolish investing.*

*Fool contributor Iain Butler does not own any of the companies mentioned in this report at this time. David Gardner owns shares of CN Rail.*

**CATEGORY**

1. Investing

**TICKERS GLOBAL**

1. TSX:CNR (Canadian National Railway Company)
2. TSX:MRU (Metro Inc.)
3. TSX:RCI.B (Rogers Communications Inc.)

**Category**

1. Investing

**Date**
2025/07/29
**Date Created**
2013/05/14
**Author**
tmfohcanada

default watermark

default watermark